

MINUTES
LEGISLATIVE GOVERNMENT OVERSIGHT COMMITTEE
October 28, 2008

The Legislative Government Oversight Committee met October 28, 2008, in the Supreme Court Chamber at the Capitol. Senator Tom Courtney, Chair, called the meeting to order at 10:09 a.m. Other members present were:

Senator Michael Connolly, VC
Senator Pat Ward, RM
Senator Becky Schmitz

Representative Vicki Lensing, Chair
Representative Ralph Watts, RM
Representative Clel Baudler
Representative Deborah Berry
Representative Jodi Tymeson
Representative Wes Whitead

The following members were excused: Senator Mary Lundby and Representatives Wayne Ford, Steven Olson, and Kurt Swaim.

MINUTES

Senator Courtney made a motion to approve the minutes from the previous interim meeting. No changes were noted. The Committee approved the minutes from the September 2008 meeting.

OVERVIEW

The primary focus of the meeting concerned a discussion of the Attorney General's report relating to issues which have arisen in connection with the Iowa Student Loan Liquidity Corporation (ISL) and a response to the report from ISL, as well as a discussion of the status of student lending in Iowa under current economic conditions by ISL, banking and credit union representatives, and input from the Iowa College Student Aid Commission.

ATTORNEY GENERAL'S REPORT

The Honorable Tom Miller, Attorney General, provided an overview of a report addressing a series of legal questions which had arisen concerning the operations of ISL and its relationship to the Iowa College Student Aid Commission (Commission). The Attorney General stated that a considerable amount of time and effort had been expended in reviewing assertions of questionable practices in relation to ISL's marketing of loan products, lending protocols, and shifting of focus from a student to market growth emphasis, and indicated that after his office had collected information, conducted an internal review, and had drawn preliminary conclusions, a leading national student loan expert, Mr. Mark Kantrowitz, was retained on a pro bono basis to provide assistance.

The Attorney General provided background information regarding the formation of ISL, indicating that the organization originated through the Governor's office, was administered by a Governor-appointed board, and from the outset while a nonprofit corporation did maintain close connections to State government and a favorable bonding status. He stated with the passage of time, while many students were helped through ISL assistance, through a lack of oversight and supervision it appeared there was a gradual shift in focus rendering the best interests of students secondary to asset growth and market share.

Based on this combined investigation and review, the Attorney General related concerns regarding ISL's use of the term "lowest cost loans" when in fact federal loans were often lower in cost, inadequate promotion of federal loans, insufficient determination that federal loan eligibility had been exhausted, recommendation of loan consolidation without fully disclosing the financial consequences, insufficient advertising disclosure of conditions placed on obtaining specified benefits, reimbursement programs with colleges and universities and utilization of college and university employees in capacities associated with ISL leading to an appearance of impropriety, operation of an Iowa College Access Network intended to provide information and support to prospective college students which paid bonuses based on the number of ISL borrowers, prior issues relating to reporting and auditing of the organization, and the desirability for ISL voluntary compliance with open meetings and public records laws. Additionally, the Attorney General noted the appearance of an on-going, mutual distrust and lack of cooperation between ISL and the Commission, and characterized ISL's reaction to the review as "stonewalling" in nature. The Attorney General concluded with the observations that a student's-first focus must be maintained, and that continued monitoring and oversight must be provided by the Attorney General's office, the Governor, and the Committee to ensure that the ISL Board implements the recommended changes and continues to comply with House File 2690, passed during the 2008 Legislative Session.

IOWA STUDENT LOAN LIQUIDITY CORPORATION (ISL) RESPONSE

Mr. Steve McCullough, President and Chief Executive Officer, ISL, accompanied by Mr. Rudolph Leytze, Chairman of the Board, ISL, addressed the Committee in response to the Attorney General's Report and related remarks. Mr. McCullough and Mr. Leytze indicated that ISL fully supported the passage of HF 2690; that implementation of the legislation is almost fully complete; that ISL is committed to helping students, particularly from low and moderate income families, achieve a college education; that ISL is in agreement to discontinue utilizing the phrase "lowest cost" in publications; that ISL considers itself to be the most open and transparent lender in the student lending market; and that ISL has consistently charged all borrowers the same rates and fees. They emphasized that ISL is acting upon the recommendations contained within the 2007 State Auditor's report, the Attorney General's report, and the legislation, and stated that ISL will continue to coordinate with the Governor and the legislature regarding needed future change. It was noted, however, that most of the recommendations related to prior procedures which have now been largely addressed and rectified. It was also noted that there are five vacant seats on the ISL board which, if filled, would assist ISL in implementing the recommendations.

Mr. McCullough and Mr. Leytze, accompanied by Mr. Patrick Jury, President and Chief Executive Officer, Iowa Credit Union League, and Mr. Bob Hartwig, Legal Counsel, Government Relations Department, Iowa Bankers Association, also addressed the issue of student loan availability in light of current economic conditions. Mr. McCullough reported that student loan shortages are occurring and that the student loan bond market is frozen. He stated, with the concurrence of Mr. Jury and Mr. Hartwig, that ISL reacted quickly to the economic downturn by partnering with participating Iowa banks and credit unions to assure the continued availability of federal and private student loans to Iowa students. Mr. McCullough emphasized the need to encourage Iowans to invest in bonds as the economic crisis continues, and that additional State financial assistance in the form of grants and scholarships is needed.

IOWA COLLEGE STUDENT AID COMMISSION

Ms. Julie Leeper, Director of Legislative Services, Iowa College Student Aid Commission, accompanied by Ms. Janet Adams, Chairperson of the Commission, and Ms. Michelle Durand-Adams, Commission Member, provided input from the Commission's perspective regarding the

Attorney General's report, and discussed State and federal financial aid available to Iowa students. Ms. Leeper summarized the Commission's responsibilities as delegated by the United States Department of Education for administration of the Federal Family Education Loan Program (FFELP), and noted that the Commission is the designated State agency for administering State-funded scholarship and grant programs. Ms. Leeper stated that over the past twenty years federal and State appropriations have provided an increasingly smaller portion of the tuition and fee expenses of Iowa students, resulting in an increase in the portion of these expenses financed through debt. She also stated that the State's ranking in student debt load far exceeds its ranking in providing grants, that nationally lenders are suspending participation in student lending programs or changing lending practices, that students are struggling to finance higher education and in some cases are unable to secure a private loan for lack of a viable co-signer, and updated recent activity with regard to various financial aid programs and Federal Acts. Ms. Leeper advocated increasing State appropriations for grant aid, and indicated that the Commission will continue to provide outreach and encourage and support access initiatives in coordination with the Department of Education and other State agencies.

With regard to the Commission's relationship with ISL, the Commission representatives agreed with the Attorney General's "stonewalling" characterization; indicated they had difficulty obtaining information from ISL necessary in order to fulfill the Commission's oversight responsibilities; and took exception to ISL providing public information, outreach, and college planning functions which they view as more properly within the Commission's purview.

COMMITTEE DISCUSSION DURING THE PRESENTATIONS

Committee discussion and inquiry during the presentations included:

- Whether additional legislation is needed to address the concerns raised in the Attorney General's report or to enhance the Commission's authority in relation to ISL
- The extent to which the concerns raised in the report constitute mismanagement.
- Whether the State should pursue reimbursement on behalf of students who could have received lower interest rate loans had they been so advised.
- Whether the current model of ISL as a nonprofit agency with favored bonding status is workable.
- How the relationship between ISL and the Commission can be improved.
- The extent to which ISL's relationships with college and university employees might give rise to a perception of impropriety rather than reality.
- Applicability of open records and open meetings requirements to ISL as a hybrid organization.
- State liability for ISL in the event of significant student loan default, the soundness of ISL's bond issues and sufficiency of its assets.
- Student loan default rates in Iowa and the high proportion of defaulters who did not graduate.
- The existence of Sallie Mae as ISL's primary lending competition.
- Compensation levels for ISL board members.
- The dynamics of the relationships between ISL and banks and credit unions regarding processing of applications and the provision of student loans.

NEXT MEETINGS

Next interim meeting is scheduled for December 15-16, in room 103, Supreme Court Chamber.

ACTION ITEMS – FOLLOW UP

Some questions were asked of the presenters. LSA Staff will follow up with all the specific questions for the agencies.

ADJOURNED

Senator Courtney adjourned the meeting at 1:55 p.m.